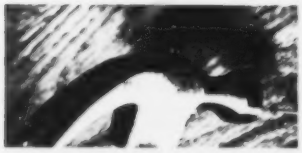
Second Quarter
Fiscal Update

Province of Alberta



06 BUDGET

STRENGTHENING TODAY,
Securing Tomorrow

2006 - 2007 Quarterly Budget Report

November 2006

Alberta

UPDATING ALBERTANS

The *Second Quarter Fiscal Update* consists of two parts – the updated 2006-07 forecast and the actual results for the first six months of the fiscal year (April 1 to September 30, 2006).

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2007-00444

2006-07 FORECAST

HIGHLIGHTS

- **Surplus.** Forecast at $5.4 billion, an increase of $1.3 billion from budget and $1.2 billion higher than in the *First Quarter Fiscal Update*.
- **Revenue.** Forecast at $35.1 billion, an increase of $2.7 billion from budget and $1.2 billion higher than the first quarter forecast. The increase is mainly due to higher income tax revenue and investment income.
- **Expense.** Forecast at $29.7 billion, an increase of $1.4 billion from budget and $47 million higher than the first quarter forecast. Changes include:
  - Capital grants – $772 million increase from budget primarily for schools, post-secondary institutions, health, public transit, housing and cost escalation of projects ($233 million increase from first quarter).
  - Operating – $216 million net increase from budget mainly for health and education ($34 million increase from first quarter).
  - Disaster/emergency assistance – $517 million increase from budget for agriculture, wildfires, floods and mountain pine beetle infestations ($1 million increase from first quarter).
  - Natural gas rebates – $109 million decrease from budget ($211 million decrease from first quarter).
- **Capital Plan.** Strong financial results have allowed a $2.7 billion increase in capital commitments over the original 2006-09 Capital Plan. This includes an increase of $895 million in 2006-07 ($772 million in capital grants and $123 million in capital investment) and an increase of $1.8 billion in future years.
- **Sustainability Fund.** Allocations from the Fund include $2.5 billion to the Heritage Fund, endowments and other funds, and $1.5 billion to the Capital Account for the future costs of approved capital commitments. After these allocations, the Fund is forecast at $5.5 billion. This is $3 billion higher than the minimum target level.

FISCAL SUMMARY[a]

(millions of dollars)

		2006-07 Budget	2006-07 2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
1	**Revenue**	32,408	**35,137**	2,729	1,197
2	**Expense**				
3	Program	28,067	**29,463**	1,396	57
4	Debt servicing costs	245	**235**	(10)	(10)
5	Total Expense	28,312	**29,698**	1,386	47
6	**Net Revenue (surplus)**	4,096	**5,439**	1,343	1,150
7	Transfer from Capital Account for capital grants	1,896	**2,468**	572	33
8	Net transfer from (to) Sustainability Fund	(5,692)	**(7,801)**	(2,109)	(1,189)
9	**Contingency Allowance**	300	**106**	(194)	(6)
10	**Net Amount Available for Allocation from the Sustainability Fund**				
11	Net Revenue	4,096	**5,439**	1,343	1,150
12	Cash from 2005-06 fourth quarter results	-	**1,095**	1,095	-
13	Adjustments [b]	(276)	**516**	792	(281)
14	**Net Amount Available for Allocation**	3,820	**7,050**	3,230	869
15	**Allocation**				
16	Capital Account - for future costs of approved commitments	-	**1,541**	1,541	491
17	Heritage Fund - $1 billion deposit and inflation-proofing	1,242	**1,283**	41	-
18	Advanced education endowment (in the Heritage Fund)	-	**250**	250	-
19	Medical Research Endowment Fund	150	**150**	-	-
20	Science and Engineering Research Endowment Fund	-	**100**	100	-
21	Scholarship Fund	20	**20**	-	-
22	Alberta Cancer Prevention Legacy Fund	500	**500**	-	-
23	Energy Innovation Fund	-	**200**	200	-
24	Amount in Sustainability Fund above $2.5 billion at March 31, 2007	1,908	**3,006**	1,098	378
25	**Total Allocation**	3,820	**7,050**	3,230	869

a Subject to the *Fiscal Responsibility Act*. Does not include changes in equity of Crown-controlled SUCH sector organizations or in pension obligations.

b Adjusts Net Revenue to cash available for allocation from the Sustainability Fund. Second quarter forecast includes the $1.6 billion in Sustainability Fund above the $2.5 billion minimum balance at the start of the year, plus $339 million in cash adjustments, less $376 million in retained income of funds and agencies, less $924 million required for 2006-07 Capital Investment, less $106 million in the Contingency Allowance. Further details are provided on page 6.

REVENUE

NON-RENEWABLE RESOURCE REVENUE

Non-renewable resource revenue is now forecast at $11.6 billion, an increase of $197 million from budget but down $334 million from first quarter. Higher-than-budgeted revenue from oil royalties and land sales has been offset by lower revenue from natural gas royalties.

Total **oil royalties** are forecast at $3.9 billion, $1.3 billion higher than the budget estimate and $113 million higher than first quarter forecast. Oil prices are forecast to average US$64.67 per barrel for the fiscal year. This is US$14.67 higher than the budget estimate and US$1.17 higher than the first quarter forecast.

Year-to-date (April to October) oil prices have averaged about US$69 per barrel but are expected to average only about US$60 per barrel for the remainder of the fiscal year.

Natural gas royalties are forecast at $5.4 billion, $1.7 billion less than budgeted and $761 million lower than the first quarter forecast. Natural gas prices are forecast to average Cdn$5.75 per gigajoule for the fiscal year, a decrease of Cdn$1.75 from budget and Cdn75¢ from the first quarter forecast.

Year-to-date (April to October) natural gas prices have averaged about Cdn$5.45 per gigajoule. For the rest of the fiscal year, prices are expected to average over Cdn$6.00 per gigajoule.

Revenue from **bonuses and sales of Crown leases** is forecast at $2.2 billion, $704 million higher than budgeted and $373 million higher than the first quarter forecast. The increase is due to higher-than-expected oil sands lease sales.

The government has announced the ending of the **Alberta Royalty Tax Credit** (ARTC) effective January 1, 2007. ARTC payments are forecast at $165 million, $63 million higher than budgeted. The increase reflects an accrual for 2006 claims that would have been reported in 2007-08.

The *Fiscal Responsibility Act* requires non-renewable resource revenue above $5.3 billion be transferred to the Sustainability Fund. This transfer is forecast at $6.3 billion.

TAX REVENUE

Personal income tax revenue is forecast at $7.4 billion, up $1.4 billion from budget and $688 million from first quarter.

Updated assessment data for the 2005 tax year indicate a positive prior years' adjustment of $582 million. The higher 2005 base and stronger 2006 personal income growth also increase the current-year forecast.

Corporate income tax revenue is forecast at $2.8 billion, up $573 million from budget and $100 million from the first quarter forecast, due to a stronger outlook for corporate profits.

Other tax revenue is forecast at $3.4 billion, $40 million higher than budget and $25 million higher than first quarter. Increases in revenue from tobacco, fuel and insurance taxes and the tourism levy, are partly offset by a decrease in the freehold mineral rights tax.

TRANSFERS FROM GOVERNMENT OF CANADA

Transfers from the Government of Canada are forecast at $3.2 billion, $182 million lower than budgeted but $84 million higher than the first quarter forecast.

Health transfers and the Canada Social Transfer are $411 million lower than budgeted, reflecting the impact of higher provincial income tax revenue on cash transfers. Other transfers are $229 million higher than budgeted due mainly to federal transfers for public transit, housing and post-secondary infrastructure.

INVESTMENT INCOME

Investment income is forecast at $2.2 billion, up $470 million from budget and $466 million from the first quarter forecast.

Heritage Fund and endowment fund income is $289 million higher than budgeted due to higher realized capital gains. Other investment income is forecast to be $181 million higher than budgeted mainly due to higher asset balances and higher short-term interest rates.

OTHER REVENUE

Other revenue is forecast at $4.6 billion, up $254 million from budget and $168 million from the first quarter forecast. Changes from budget include:

- $153 million increase in gaming and liquor revenue, mainly from higher volumes due to population and income growth.
- $38 million decrease in revenue from timber rentals and fees due to lower prices and a higher exchange rate.
- $139 million increase in other revenue.

REVENUE

(millions of dollars)

	2006-07				
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter	Main Reasons for Change from Budget
Income Taxes					
Personal income tax	5,999	**7,376**	1,377	688	Higher 2005 assessments/income growth
Corporate income tax	2,227	**2,800**	573	100	Stronger corporate profits
	8,226	**10,176**	1,950	788	
Other Taxes					
School property tax	1,306	**1,306**	-	-	
Tobacco tax	740	**760**	20	20	Higher population growth
Fuel tax	643	**700**	57	25	Stronger economic and population growth
Freehold mineral rights tax	386	**309**	(77)	(21)	Lower natural gas price/well productivity
Insurance taxes	195	**227**	32	1	Growth in premiums and the economy
Tourism levy	50	**58**	8	-	Higher hotel stays/room rates
	3,320	**3,360**	40	25	
Non-Renewable Resource Revenue					
Natural gas and by-products royalty	7,146	**5,435**	(1,711)	(761)	Lower natural gas price
Crude oil royalty	954	**1,330**	376	(2)	Higher oil price
Synthetic crude oil and bitumen royalty	1,716	**2,595**	879	115	Higher oil price
Coal royalty	11	**17**	6	2	Increased production
Bonuses and sales of Crown leases	1,479	**2,183**	704	373	Higher oil sands lease sales
Rentals and fees	150	**156**	6	2	Increased mineral mining activity
Royalty tax credit	(102)	**(165)**	(63)	(63)	Year-end accrual
	11,354	**11,551**	197	(334)	
Transfers from Government of Canada					
Health transfers	1,888	**1,638**	(250)	(59)	Higher income tax revenue
Canada Social Transfer	678	**517**	(161)	(42)	Higher income tax revenue
Agriculture support programs	303	**308**	5	5	Higher federal CAIS administration costs
Other	529	**753**	224	180	Federal infrastructure transfers
	3,398	**3,216**	(182)	84	
Net Income from Commercial Operations					
Alberta Gaming and Liquor Commission:					
Gaming and lottery revenue	1,300	**1,423**	123	37	Higher VLT activity
Liquor revenue	571	**601**	30	30	Volume increase
Alberta Treasury Branches	217	**256**	39	39	Reduced loan losses/higher interest income
Other	6	**6**	-	-	
	2,094	**2,286**	192	106	
Investment Income					
Alberta Heritage Savings Trust Fund	874	**1,117**	243	333	Higher-than-expected realized capital gains
Endowment Funds:					
Medical Research	61	**86**	25	27	Higher-than-expected realized capital gains
Science and Engineering Research	31	**43**	12	18	Higher-than-expected realized capital gains
Scholarship	27	**36**	9	12	Higher-than-expected realized capital gains
Alberta Capital Finance Authority	275	**275**	-	-	
Agriculture Financial Services Corporation	86	**94**	8	8	Higher fund balances
Sustainability Fund	125	**185**	60	25	Higher asset balance and interest rates
Debt Retirement Account	89	**95**	6	-	Higher interest rates
Capital Account	135	**170**	35	20	Higher asset balance and interest rates
Other	64	**136**	72	23	Higher asset balances and interest rates
	1,767	**2,237**	470	466	
Premiums, Fees and Licences					
Health care insurance premiums	882	**906**	24	15	Increase in registrants
Motor vehicle licences	305	**324**	19	17	Higher commercial vehicle registrations
Crop and hail insurance premiums	124	**130**	6	6	Higher participation rate
Timber rentals and fees	81	**43**	(38)	-	Lower prices/higher exchange rate
Land titles	54	**64**	10	6	Stronger real estate market
Other	306	**318**	12	8	Revised forecast
	1,752	**1,785**	33	52	
Other					
Refunds of expense	97	**98**	1	1	Revised forecast
Fines and penalties	78	**83**	5	3	Volume increase
Miscellaneous	322	**345**	23	6	Glenbow Ranch donation, net changes
	497	**526**	29	10	
Total Revenue	32,408	**35,137**	2,729	1,197	

EXPENSE

TOTAL EXPENSE

- Total expense is $1.4 billion higher than the budget estimate. Changes include:
  - $772 million in increased capital grants.
  - $517 million in disaster/emergency assistance provided from the Sustainability Fund.
  - $216 million net increase in operating expense, of which $194 million is for in-year initiatives drawn from the Contingency Allowance.
  - $109 million decrease for lower natural gas rebates from the Sustainability Fund.
  - $10 million decrease in debt servicing costs.

SUSTAINABILITY FUND

Disaster/Emergency Assistance – Total assistance of $517 million: $261 million for agriculture assistance, $231 million for forest fire-fighting costs, $20 million for survey and control of mountain pine beetle infestations and $5 million for flood disasters.

Natural Gas Rebates – $253 million in rebates are forecast to be paid, a $109 million decrease from the budget estimate. Rebate levels are now expected to be $1.50 per gigajoule in the five months November to March, with no rebates in October.

CAPITAL GRANTS / CAPITAL ACCOUNT

Funding for capital grants has been increased by a net $772 million from budget. This includes:

- $572 million in additional grants funded from the Capital Account, primarily for cost escalation of approved projects, additional school projects, health equipment and *Water for Life* projects.
- $225 million for in-year federal transfers for public transit, post-secondary institutions, and affordable and off-reserve aboriginal housing (dedicated revenue/expense changes).
- Less a $25 million lapse in budgeted capital grants primarily due to rescheduling of projects. This lapse has been used to provide increased operating funding for Advanced Education, and Seniors and Community Supports.

FUNDING FROM THE CONTINGENCY ALLOWANCE

$300 million was set aside in the budget for in-year, non-emergency operating spending initiatives. A net $194 million has been allocated primarily for higher health and education expense.

MINISTRY EXPENSE CHANGES

Advanced Education – $131 million increase. Includes $118 million net increase in capital grants for cost escalation and project funding and net $13 million operating increase to address matching contributions at post-secondary institutions.

Agriculture, Food and Rural Development – $270 million increase. This includes $261 million in agriculture disaster funding, $5 million for wastewater infrastructure and $5 million for bioenergy initiatives, partly offset by $1 million in other net decreases.

Education – $302 million increase. This includes $239 million in capital grants for school maintenance and renewal, cost escalation of approved projects, modular classrooms, new schools and preservation projects; $62 million for operating support to schools; and $1 million in other increases.

Health and Wellness – $264 million increase. This includes $152 million for medical equipment capital grants, $31 million for auxiliary nursing salary adjustments and $81 million for health authority operations.

Infrastructure and Transportation – $71 million net increase. This includes a net $187 million in capital grants primarily for public transit, cost escalation of approved capital projects, and *Water for Life* regional water system planning; $109 million decrease for natural gas rebates; and a $7 million net decrease in other expenses.

Municipal Affairs – $24 million increase. This includes $15 million in capital grants for petroleum storage tank site remediation and other projects, $5 million for 2006 flood disaster assistance, $4 million for costs related to 2005 flood disasters.

Seniors and Community Supports – $49 million net increase. This includes a $51 million increase for housing and other capital grants, $8 million for a homelessness initiative and a $2 million increase for the rent supplement program. These increases are partially offset by a $12 million decrease in AISH costs.

Sustainable Resource Development – $249 million net increase. This includes $251 million for forest fire-fighting and mountain pine beetle infestation costs, less $2 million in transfers to capital investment.

Other ministries – There is a net $36 million increase from budget including additional funding for the Alberta Film Development Program and energy and water research initiatives.

EXPENSE SUMMARY

(millions of dollars)

	2006-07			
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
Program Expense				
Budget base expense	27,705	**27,705**	-	-
Disaster/emergency assistance (from Sustainability Fund)	-	**517**	517	1
Natural gas rebates (from Sustainability Fund)	362	**253**	(109)	(211)
Increase in capital grants (from Capital Account and federal transfers) [a]	-	**797**	797	258
In-year Contingency Allowance net expense [b]	-	**194**	194	6
Dedicated revenue/operating expense changes (net) [c]	-	**(3)**	(3)	3
Total Program Expense	28,067	**29,463**	1,396	57
Debt Servicing Costs	245	**235**	(10)	(10)
Total Expense	28,312	**29,698**	1,386	47

a Includes $572 million from the Capital Account and $225 million in dedicated revenue/capital grant changes related to in-year federal transfers ($47.3 million for post-secondary infrastructure, $131.4 million for public transit, $46.5 million for housing). Does not include $25 million in lapsed budgeted capital grants that have been reallocated to operating spending. Net increase in capital grants is $772 million.

b Operating expense is increasing by $234 million less an $18 million reduction in amortization. Of the net operating increase of $216 million, $194 million is a draw on the Contingency Allowance, $25 million is from lapsed capital grants and $3 million is a reduction in dedicated revenue/operating expense.

c Dedicated revenue/operating expense changes – Agriculture, Food and Rural Development: $4.7 million increase mainly for CAIS Inventory Transition Initiative; Gaming: $10 million decrease due to delays in racing entertainment centre expansion; Human Resources and Employment: $6.4 million decrease for federal Canadian Agriculture Skills Services Program; and a net $8.6 million in other increases.

EXPENSE BY MINISTRY

(millions of dollars)

	2006-07				
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter	Main Reasons for Change from Budget
Program					
Legislative Assembly	75	**75**	-	-	
Aboriginal Affairs and Northern Development	44	**45**	1	-	Legal costs
Advanced Education	2,198	**2,329**	131	91	Capital grants
Agriculture, Food and Rural Development	1,093	**1,363**	270	(1)	Disaster/wastewater grants/bioenergy
Children's Services	918	**912**	(6)	-	Child care initiatives
Community Development	242	**243**	1	-	Acquisition of aboriginal artifacts
Economic Development	103	**117**	14	12	Alberta Film Development Program
Education	5,127	**5,429**	302	9	School capital and operating support
Energy	219	**222**	3	3	Energy and Utilities Board operations
Environment	143	**155**	12	-	Water and waste management grants
Executive Council	25	**25**	-	-	
Finance	596	**590**	(6)	(4)	Various miscellaneous changes
Gaming	202	**192**	(10)	-	Delays in racing entertainment expansion
Government Services	99	**100**	1	-	Transfer from capital investment
Health and Wellness	10,315	**10,579**	264	2	Grants to health authorities
Human Resources and Employment	789	**788**	(1)	(6)	Lower CASS program demand
Infrastructure and Transportation	2,548	**2,619**	71	(102)	Rebates/capital grants/*Water for Life*
Innovation and Science	181	**201**	20	-	Energy and water research initiatives
International and Intergovernmental Relations	11	**11**	-	-	
Justice	348	**352**	4	-	Justices of the Peace compensation
Municipal Affairs	139	**163**	24	1	Tank site remediation/flood disasters
Restructuring and Government Efficiency	147	**147**	-	-	
Seniors and Community Supports	1,817	**1,866**	49	53	Housing capital grants
Solicitor General and Public Security	450	**453**	3	(1)	Edmonton Remand Centre overcrowding
Sustainable Resource Development	238	**487**	249	-	Wildfires/mountain pine beetles
Total Program Expense	28,067	**29,463**	1,396	57	
Debt Servicing Costs	245	**235**	(10)	(10)	Lower borrowing/long-term interest rates
Total Expense	28,312	**29,698**	1,386	47	

ALBERTA SUSTAINABILITY FUND

TRANSFERS

The *Fiscal Responsibility Act* requires non-renewable resource revenue above $5.3 billion to be transferred to the Sustainability Fund. Increases in other revenue, less certain adjustments, are also transferred to the Fund.

Withdrawals from the Fund are allowed for emergency/disaster assistance and the payment of natural gas rebates ($770 million in 2006-07).

After these transactions, remaining assets of the Fund above $2.5 billion can be allocated to other balance sheet improvements, including the Capital Account.

In 2006-07, $3.4 billion has been transferred to the Capital Account for current-year use, leaving over $7 billion available for allocation in 2006-07.

ALLOCATION OF AVAILABLE ASSETS

Of the assets available for allocation, $4 billion has been allocated, including:

- Capital Account – $1.5 billion for future costs of approved capital commitments.
- Heritage Fund and other endowments – $1.8 billion.
- Other Funds – the Alberta Cancer Prevention Legacy Fund and the Energy Innovation Fund received $500 million and $200 million, respectively.

$3 billion has been left in the Sustainability Fund leaving total assets forecast at $5.5 billion at March 31, 2007.

ALBERTA SUSTAINABILITY FUND

(millions of dollars)

	2006-07			
		2nd Quarter	Change from	1st Quarter
	Budget	Forecast	Budget	
Assets at Start of Year	4,083	**4,083**	-	-
Transfers into the Sustainability Fund				
Cash transferred from 2005-06 fourth quarter results [a]	-	**1,095**	1,095	-
Non-renewable resource revenue transfer from general revenue	6,054	**6,251**	197	(334)
Other net transfers	-	**2,320**	2,320	1,313
Adjustments				
Energy and other cash adjustments [b]	(464)	**339**	803	(212)
Retained income of funds and agencies [c]	(282)	**(376)**	(94)	(128)
Withdrawals for disaster/emergency/natural gas rebates	(362)	**(770)**	(408)	210
Net Transfers	4,946	**8,859**	3,913	849
Total Assets after Net Transfers	9,029	**12,942**	3,913	849
Minimum assets required in Sustainability Fund	(2,500)	**(2,500)**	-	-
Transfer of Assets to Capital Account for current-year use	(2,709)	**(3,392)**	(683)	20
Assets Available for Allocation	3,820	**7,050**	3,230	869
Allocations				
Capital Account - approved future-year commitments	-	**1,541**	1,541	491
Heritage Fund - deposit	1,000	**1,000**	-	-
Heritage Fund - inflation-proofing	242	**283**	41	-
Advanced education endowment (in the Heritage Fund)	-	**250**	250	-
Medical Research Endowment Fund	150	**150**	-	-
Science and Engineering Research Endowment Fund	-	**100**	100	-
Scholarship Fund	20	**20**	-	-
Alberta Cancer Prevention Legacy Fund	500	**500**	-	-
Energy Innovation Fund	-	**200**	200	-
Remaining Sustainability Fund assets above $2.5 billion at end of year	1,908	**3,006**	1,098	378
Total Allocations	3,820	**7,050**	3,230	869
Total Sustainability Fund assets at March 31, 2007	4,408	**5,506**	1,098	378

a The cash from the higher-than-forecast 2005-06 fourth quarter results was transferred into the Sustainability Fund in 2006-07.

b Due primarily to cash adjustments for natural gas royalties.

c Due primarily to retained income of Alberta Treasury Branches, Agriculture Financial Services Corporation and endowment funds. This is partly offset by withdrawals from the Alberta Cancer Prevention Legacy Fund and the Energy Innovation Fund.

CAPITAL PLAN

Capital Plan commitments have been increased by $2.7 billion. An increase of nearly $1.8 billion was announced in the *First Quarter Fiscal Update*. A further $930 million is now being added.

Of the total $2.7 billion increase, $895 million is for projects in 2006-07 and $1.8 billion is for project funding in future years.

This $2.7 billion increase will provide funding for cost escalation of approved projects, additional school projects, post-secondary facilities, medical equipment, public transit, community facilities, housing, a new Edmonton Remand Centre, a police information technology system, petroleum storage tank site remediation, regional water systems and other infrastructure support.

2006-07 CAPITAL PLAN

2006-07 capital spending, including capital grants to local authorities and capital investment in provincial government-owned projects, is forecast at $5.1 billion:

- **Municipal Infrastructure Support** – Total allocation of $1.2 billion, $155 million higher than budgeted. The increase includes $131 million for public transit, $13 million for petroleum storage tank site remediation and $11 million for other increases.
- **Provincial Highway Network** – Total allocation of $1.1 billion, up $32 million from budget, primarily for cost escalation of approved projects.
- **Health Facilities and Equipment** – Total allocation of $900 million, up $152 million from budget, for diagnostic and medical equipment.
- **Schools** – Total allocation of $578 million, up $239 million from budget. The increase provides additional funding for school maintenance and renewal, cost escalation of approved projects, modular classrooms, and new schools and preservation projects.
- **Post-secondary Facilities** – Total allocation of $396 million, an increase of $118 million from budget for cost escalation of approved projects, federal transfers for post-secondary facilities and the University of Calgary's Child Development Centre.
- **Community Facilities and Centennial Projects** – Total allocation of $148 million, $27 million higher than budgeted, reflecting the carry-over of unfinished 2005-06 projects in Community Development and Infrastructure and Transportation.
- **Water and Wastewater Management** – Total allocation of $135 million, up $45 million from budget. A further $170 million has been committed for regional water systems projects in 2007-09.
- **Government Facilities, Housing and Equipment** – Total allocation of $544 million, up $199 million from budget. In addition to various first quarter changes, $50 million has been added primarily for federal transfers relating to housing.
- **Capital for Emergent Projects** – Of the budgeted $172 million, $22 million has been allocated to various other areas of the Capital Plan, and $50 million in capital investment is being lapsed.

CAPITAL PLAN SUMMARY

(millions of dollars)

	2006-07			
		2nd Quarter	Change from	1st Quarter
	Budget	Forecast	Budget	
Municipal infrastructure support	1,014	**1,169**	155	91
Provincial highway network	1,074	**1,106**	32	7
Health facilities and equipment	748	**900**	152	2
Schools	339	**578**	239	7
Post-secondary facilities	278	**396**	118	69
Community facilities and centennial projects	121	**148**	27	-
Water and wastewater management	90	**135**	45	30
Government facilities, housing and equipment	345	**544**	199	50
Capital for emergent projects	172	**100**	(72)	(72)
Total Capital Plan	4,181	**5,076**	895	184
To be funded by				
Current-year revenue	1,324	**1,536**	212	204
Capital Account	2,709	**3,392**	683	(20)
Alternative financing including P3s	148	**148**	-	-
Total Capital Plan	4,181	**5,076**	895	184

NET FINANCIAL AND CAPITAL ASSETS

- **Net Assets** – Net assets at March 31, 2007 are forecast at $39.7 billion. This includes capital assets of $12.7 billion.
- **Capital Account** – Capital Account assets are forecast at $5.8 billion, an increase of $1.5 billion from March 31, 2006. The increase reflects funding set aside for the cost of increased capital commitments in future years.
- **Accumulated Debt/Debt Retirement Account** – Sufficient funds have been set aside in the Debt Retirement Account to pay for remaining accumulated debt as it matures.
- **Heritage Fund** – The book value of Heritage Fund external assets is forecast at $15 billion, an increase of $1.6 billion from March 31, 2006. The increase includes $1.3 billion in a deposit and inflation proofing, a $250 million deposit for the advanced education endowment and repayment of ASHC debt.
- **Endowments and Other Funds** – Allocations have also been made to endowments and other funds. These include the Alberta Cancer Prevention Legacy Fund, the Energy Innovation Fund, the Medical Research Endowment Fund, the Science and Engineering Research Endowment Fund and the Scholarship Fund.

BALANCE SHEET

AT MARCH 31

(millions of dollars)

	2006	2007			
			2nd Quarter	Change from	2006
	Actual	Budget[a]	Forecast	Budget	Actual
Financial Assets					
Heritage Fund external investments	13,414	14,737	**15,029**	292	1,615
Self-supporting lending organizations	6,617	7,007	**6,740**	(267)	123
Alberta Sustainability Fund	4,083	4,408	**5,506**	1,098	1,423
Endowment funds [b]	2,327	2,996	**3,324**	328	997
Capital Account	4,243	4,243	**5,784**	1,541	1,541
Debt Retirement Account	2,197	2,024	**2,032**	8	(165)
Other financial assets	8,905	9,852	**7,847**	(2,005)	(1,058)
Total Financial Assets	41,786	45,267	**46,262**	995	4,476
Liabilities					
Accumulated debt	2,195	2,022	**2,030**	8	(165)
Pension obligations	5,435	5,582	**5,652**	70	217
Self-supporting lending organizations [c]	5,298	5,562	**5,392**	(170)	94
Other liabilities	5,975	6,230	**6,185**	(45)	210
Total Liabilities	18,903	19,396	**19,259**	(137)	356
Net Financial Assets	22,883	25,871	**27,003**	1,132	4,120
Capital assets and inventories of supplies	11,552	12,513	**12,654**	141	1,102
Net Assets	34,435	38,384	**39,657**	1,273	5,222
Adjustment for pension obligations	5,435	5,582	**5,652**	70	217
Net Assets for Fiscal Policy Purposes [d]	39,870	43,966	**45,309**	1,343	5,439

a Budget numbers have been restated to reflect 2005-06 actual results.

b Includes the Medical Research Endowment Fund, Science and Engineering Research Endowment Fund, Scholarship Fund, Alberta Cancer Prevention Legacy Fund and the Energy Innovation Fund.

c Excludes $942 million borrowed from the General Revenue Fund by self-supporting lending organizations reported in other liabilities.

d Under the *Fiscal Responsibility Act*. Excludes pension obligations and change in equity of Crown-controlled SUCH sector organizations.

CAPITAL ACCOUNT

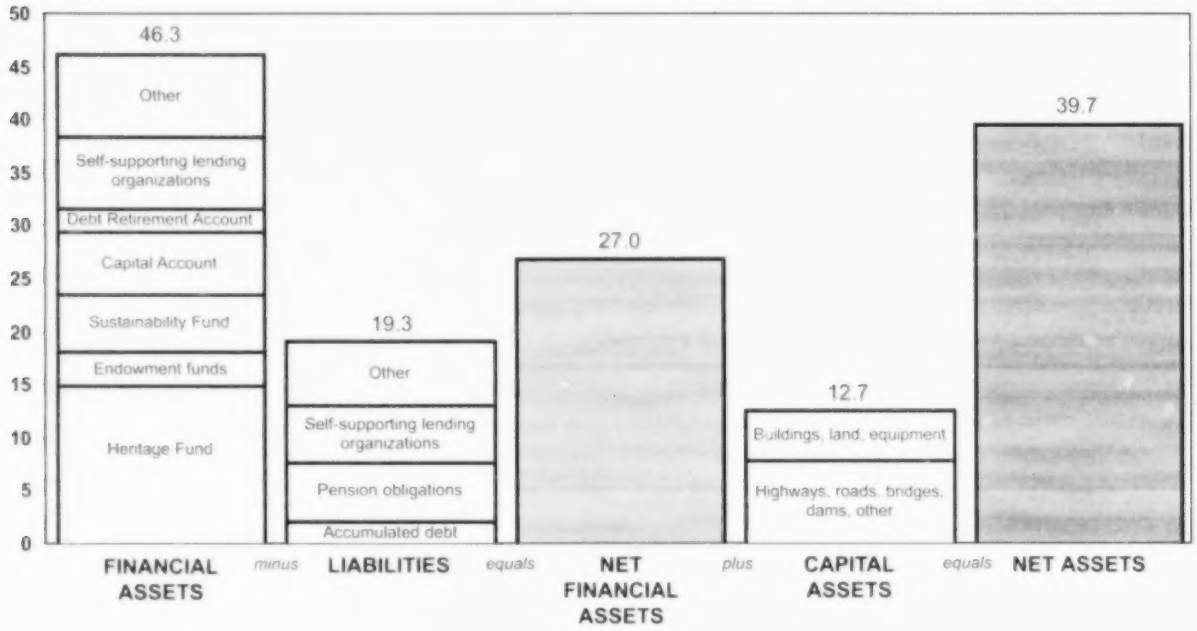
(millions of dollars)

	2005-06	2006-07			
			2nd Quarter	Change from	2005-06
	Actual	Budget	Forecast	Budget	Actual
Assets at Start of Year	674	4,243	**4,243**	-	3,569
Allocations from Sustainability Fund	5,858	2,709	**4,933**	2,224	(925)
Withdrawals					
Capital grants to local authorities	(1,795)	(1,896)	**(2,468)**	(572)	(673)
Government-owned capital investment	(494)	(813)	**(924)**	(111)	(430)
Assets at End of Year	4,243	4,243	**5,784**	1,541	1,541

ASSETS, LIABILITIES AND NET ASSETS

AT MARCH 31, 2007

(billions of dollars)



NET FINANCING REQUIREMENTS

(millions of dollars)

	2006-07			
	Budget	2nd Quarter Forecast	Change from Budget	Change from 1st Quarter
Requirements:				
General Revenue Fund term debt maturities	-	-	-	-
School construction loan repayments	65	**65**	-	-
Alberta Social Housing Corporation debt repayment [a]	108	**100**	(8)	-
Accumulated debt financing requirements	173	**165**	(8)	-
Agriculture Financial Services Corporation's term borrowing requirements	200	**197**	(3)	27
Gross financing requirements	373	**362**	(11)	27
Cash applied to accumulated debt repayment [b]	(173)	**(165)**	8	-
Net Term Debt Financing Requirements	200	**197**	(3)	27
Term debt financing completed to date	-	**70**	70	70

a $8 million of budgeted debt repayment took place in 2005-06.

b Accumulated debt maturities paid from the Debt Retirement Account.

2006-07 FISCAL YEAR ASSUMPTIONS

	Sensitivities ($ millions)				Assumptions	
	Annual Change	Revenue	Spending	Net Change	Budget	2nd Quarter Forecast
Oil Price (WTI US$/bbl)	-$1.00	-123	_	-123	50.00	64.67
Natural Gas Price (Cdn$/GJ)	-10¢	-104	_	-104	7.50	5.75
Exchange Rate (US¢/Cdn$)	+1¢	-172	_	-172	85.80	88.70
Interest Rates:	+1%	-200	+5	-205		
3-month Canada treasury bills					3.95	4.15
10-year Canada bonds					4.95	4.15

CAPITAL INVESTMENT AND AMORTIZATION[a]

(millions of dollars)

	2006-07 Capital Investment				2006-07 Capital Amortization			
		2nd Quarter	Change from			2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter	Budget	Forecast	Budget	1st Quarter
Legislative Assembly	-	-	-	-	-	-	-	-
Aboriginal Affairs and Northern Development	-	-	-	-	-	-	-	-
Advanced Education	4	4	-	-	5	5	-	-
Agriculture, Food and Rural Development	10	13	3	3	10	11	1	1
Children's Services	4	4	-	-	1	1	-	-
Community Development	26	37	11	-	12	12	-	-
Economic Development	-	-	-	-	-	-	-	-
Education	4	3	(1)	(1)	1	1	-	-
Energy	18	18	-	-	16	16	-	-
Environment	3	3	-	-	20	20	-	-
Executive Council	-	-	-	-	-	-	-	-
Finance	6	6	-	-	7	7	-	-
Gaming	-	-	-	-	-	-	-	-
Government Services	11	8	(3)	-	6	4	(2)	-
Health and Wellness	76	76	-	-	47	47	-	-
Human Resources and Employment	4	4	-	-	3	3	-	-
Infrastructure and Transportation	1,280	1,382	102	(50)	315	298	(17)	-
Innovation and Science	6	6	-	-	2	2	-	-
International and Intergovernmental Relations	-	-	-	-	-	-	-	-
Justice	22	20	(2)	(2)	3	3	-	-
Municipal Affairs	1	1	-	-	2	2	-	-
Restructuring and Government Efficiency	4	4	-	-	31	31	-	-
Seniors and Community Supports	1	1	-	-	25	25	-	-
Solicitor General and Public Security	-	11	11	1	1	1	-	-
Sustainable Resource Development	39	41	2	-	11	11	-	-
Total Capital Investment/Amortization	1,519	1,642	123	(49)	518	500	(18)	1
Funded from the Capital Account	813	924	111	(53)	-	-	-	-
Alternatively financed	148	148	-	-	-	-	-	-

a Capital Investment includes purchases of inventory. Capital Amortization includes consumption of inventories.

CAPITAL GRANTS TO LOCAL AUTHORITIES AND OTHER INFRASTRUCTURE SUPPORT[a]

(millions of dollars)

	2006-07			
		2nd Quarter	Change from	
	Budget	Forecast	Budget	1st Quarter
Advanced Education	273	391	118	69
Agriculture, Food and Rural Development	29	35	6	-
Community Development	36	36	-	-
Education	339	578	239	7
Environment	1	8	7	-
Finance	4	4	-	-
Gaming	45	45	-	-
Health and Wellness	672	824	152	2
Infrastructure and Transportation	1,190	1,377	187	107
Innovation and Science	1	1	-	-
Municipal Affairs	3	18	15	-
Seniors and Community Supports	69	117	48	48
Total	2,662	3,434	772	233
Funded from the Capital Account	1,896	2,468	572	33

a Included in program expense. Includes provincial highway planning and rehabilitation.

ACTUAL RESULTS

FOR THE FIRST SIX MONTHS OF 2006-07

METHOD OF CONSOLIDATION

This financial summary is prepared on the same basis as used in *Budget 2006*.

The results of all government departments, funds and agencies, except those designated as commercial enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of Crown-controlled corporations and provincial agencies designated as commercial enterprises are consolidated on the modified equity basis, the equity being computed in accordance with Canadian generally accepted accounting principles applicable to these entities.

The accounts of Crown-controlled SUCH sector organizations such as schools, universities, colleges, technical institutes, regional health authorities and health boards that are controlled by the government are not included in this fiscal summary. These Crown-controlled entities are included in the consolidated financial statements forming part of the Government of Alberta Annual Report.

BASIS OF FINANCIAL REPORTING

The consolidated fiscal summary reports revenue (including gains and losses from sale of capital assets), expense (including amortization of capital assets), and net revenue.

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue. Revenue excludes the change in equity in Crown-controlled SUCH sector organizations.

Expense includes the province's cash payments towards the unfunded pension obligations. Expense excludes the change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

Debt servicing costs include interest payable and amortization of discount on debt issues.

Comparative 2005-06 figures have been restated where necessary to conform to the 2006-07 presentation.

CONSOLIDATED FISCAL SUMMARY[a]

for the six months ended September 30, 2006

(millions of dollars)

	First Six Months		
	2006-07	2005-06	Change
Revenue			
Income taxes	5,175	3,860	1,315
Other taxes	1,695	1,661	34
Non-renewable resource revenue	6,928	5,894	1,034
Transfers from Government of Canada	1,714	1,772	(58)
Net income from commercial operations	1,240	1,072	168
Investment income	1,076	1,080	(4)
Premiums, fees and licences	1,008	983	25
Other	227	232	(5)
Total Revenue	19,063	16,554	2,509
Expense			
Program	13,625	12,546	1,079
Debt servicing costs	106	131	(25)
Total Expense	13,731	12,677	1,054
Net Revenue	5,332	3,877	1,455

a Includes the province's cash payments towards the unfunded pension liability, which will be eliminated over a longer term under a separate legislated plan. Does not include the change in equity in Crown-controlled SUCH sector organizations, and the change in the unfunded pension obligations, which is a non-cash expense that does not affect borrowing requirements.

EXPENSE

for the six months ended September 30, 2006

(millions of dollars)

	First Six Months		
	2006-07	2005-06	Change
Program			
Legislative Assembly	35	29	6
Aboriginal Affairs and Northern Development	24	23	1
Advanced Education	1,084	888	196
Agriculture, Food and Rural Development	636	461	175
Children's Services	426	381	45
Community Development	128	132	(4)
Economic Development	49	39	10
Education	2,506	2,502	4
Energy	93	86	7
Environment	63	62	1
Executive Council	10	10	-
Finance	281	269	12
Gaming	75	65	10
Government Services	40	36	4
Health and Wellness	4,927	4,374	553
Human Resources and Employment	360	365	(5)
Infrastructure and Transportation	1,203	1,334	(131)
Innovation and Science	43	43	-
International and Intergovernmental Relations	5	5	-
Justice	169	152	17
Municipal Affairs	62	102	(40)
Restructuring and Government Efficiency	61	62	(1)
Seniors and Community Supports	825	762	63
Solicitor General and Public Security	230	185	45
Sustainable Resource Development	290	179	111
Total Program Expense	13,625	12,546	1,079
Debt Servicing Costs	106	131	(25)
Total Expense	13,731	12,677	1,054

Alberta Finance